

Message Text

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 SSO-00 NSC-05 NSCE-00 EB-03 SP-02

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E.O. 11652: N/A

TAGS: EAGR, GATT, EEC, ETRD

SUBJECT: US INVOCATION OF GATT ARTICLE XXIII:2 ON EC NFDM
DEPOSIT SCHEME

REF: (A) STATE 172159, (B) STATE 175087, (C) YEUTTER/HINTON
TELECON JULY 14, (D) ROGERS/HINTON TELECON JULY 15

1. PRIOR TO RECEIPT OF REFTEL B, EARLY ON JULY 15
IN ACCORDANCE REFS (C) AND (D), INFORMED SOAMES, LARDINOIS, HIJZEN
AND HANNAY THAT AT TODAY'S GATT COUNCIL THE US WOULD INVOKE
GATT ARTICLE XXIII:2 ON THE COMMUNITY'S NFDM SCHEME, AS A
RESULT OF A HIGH LEVEL US GOVERNMENT DECISION.
(I WAS UNABLE TO GIVE THEM AT THAT TIME THE PRECISE US RPO-
CEDURAL REQUEST BUT I SUBSEQUENTLY READ TO HIJZEN THE
PARAGRAPH IN REF (B).) I TOLD SOAMES THE COMMISSION'S
ILL-ADVISED OIL TAX PROPOSAL HAD PROVOKED INTENSE POLITICAL
PRESSURE BY THE US SOYBEAN PRODUCERS AND PROCESSORS, WHICH
HAD FORCED THE HAND OF THE US GOVERNMENT. I ASKED FOR A
COOL, RATIONAL EC RESPONSE.

2. SOAMES INDICATED EXTREME DISAPPOINTMENT. HE SAID
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IT WAS DIFFICULT TO SEE WHERE THIS WOULD LEAD US. IF THE

US MOVED AS NEXT STEP TO RETALIATION ON NFDM THE SITUATION WOULD BE UNCONTROLLABLE. THE COMMISSION HAD GIVEN ASSURANCES TO THE US THAT IT WOULD END THE NFDM SCHEME ON 31 OCTOBER. HE HAD BEEN CONFIDENT OIL TAX WOULD NEVER BE ADOPTED. GIVEN US ABANDONMENT OF AGREEMENT TO CONTINUE "BILATERAL CONSULTATIONS," DOES THE US STILL EXPECT THE COMMUNITY TO CONTINUE TO MEET NFDM TERMINAL DATE? THIS US ACTION WOULD ALSO WEAKEN THE HANDS OF THOSE IN THE COMMISSION AND MEMBER STATES WHO WERE RESISTING THE IMPOSITION OF AN OIL TAX. HE CITED A STATEMENT WHICH HE HAD MADE TO THE WEDNESDAY COMMISSION MEETING, WHICH HAD BEEN LEADED TO THE EUROPE REPORT. IN THAT MEETING HE HAD AGAIN STATED HIS OBJECTION TO AN OIL TAX ON THE GROUNDS OF CONSUMER PRICES, CONSUMER HEALTH AND EXTERNAL RELATIONS, AND HAD SAID HE WOULD TRY TO PERSUADE HIS COMMISSION AND COLLEAGUES OF THEIR MISTAKE BEFORE THE COMMISSION SUBMITS ANY PROPOSALS IN SEPTEMBER. NOW WHAT?

3. SOAMES SAID OVER AND OVER THAT THE XXIII:2 MOVE IS A MISCALCULATED WAY TO GET RID OF THE OIL TAX, TO AVOID PROLONGATION OF THE NFDM SCHEME AFTER OCTOBER 31, AND TO KEEP TRADE ISSUES MANAGEABLE. WITH SOYA PRICES UP 50 PERCENT AND THE PROSPECTS OF LARGE SALES TO THE EC, SOYA PRODUCERS HAD CERTAINLY CHOSEN A STRANGE TIME TO PUSH FOR SUCH ACTION. THEY BETTER REALIZE THEIR INTEREST IN KEEPING A STEADY SUPPLY TO THE EC AT SUCH A TIME. I REMINDED SOAMES THAT I HAD WARNED SEVERAL COMMISSIONERS BEFORE THE OIL TAX PROPOSAL THAT ANY COMMISSION PROPOSAL AFFECTING SOYBEANS WOULD BE CERTAIN TO PROVOKE A STRONG US REACTION AND COULD LEAD TO THE ISSUE GETTING OUT OF HAND. IT HAD BEEN A RED FLAG TO THOSE IN THE US GOVERNMENT WHO FELT THAT WE HAD BEEN TOO REASONABLE ON NFDM AND PULLED THE RUG OUT FROM UNDER THOSE TRYING TO CONTAIN THE ISSUE. I TOLD SOAMES THAT IN SPITE OF THE MOVE TO XXIII:2, IN MY VIEW, WHICH I BELIEVED TO BE SHARED BY OTHERS IN GOVERNMENT, IT WAS STILL OUR COLLECTIVE DUTY TO TRY TO MANAGE RELATIONS BETWEEN THE US AND THE COMMUNITY TO KEEP OPEN MTN TRADE LIBERALIZATION OPPORTUNITIES AND TO CONTROL POLITICAL TENSIONS. IN THAT SPIRIT I FELT IT WOULD BE A SERIOUS MISTAKE TO PROLONG THE NFDM MEASURE OR TO SLACKEN IN LIMITED OFFICIAL USE

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THE FIGHT AGAINST THE OIL TAX OR OTHERWISE HIT BACK.

4. SOAMES RESPONDED THAT HE TOO STILL WISHED TO KEEP MATTERS UNDER CONTROL, THOUGH HE VERY MUCH FEARED THAT THEY WERE OUT OF HAND ACROSS THE ATLANTIC. COULD HE HYPOTHESIZE THAT THIS WOULD NOT HAVE HAPPENED IN A NON-ELECTION YEAR? MUCH WOULD DEPEND ON PRECISELY WHAT THE US REQUESTS IN THE GATT COUNCIL, HOW THE PRESS WAS BRIEFED AND THE "NOISES

THAT WOULD BE MADE IN THE STATES." "IF THE US BEATS THE DRUM, THEN THE COMMUNITY WOULD ALSO BE FORCED TO BEAT THE DRUMS." THE ONLY OTHER REACTION POSSIBLE, WHICH HE FELT LAY OUTSIDE THE RULES, WOULD BE PUBLICLY TO DISMISS THE US MOVE AS AN ELECTION MANEUVER. I CONCURRED THAT SUCH AN APPROACH WOULD BE A MISTAKE.

5. SOAMES REITERATED THAT HE FELT OUR REACTION TO THE OIL TAX HAD BEEN EXCESSIVE. DENT'S STRONG STATEMENT HAD BEEN FOLLOWED TO HIS SURPRISE BY WALKDER'S BELLIGERENT LONDON INTERVIEW. NOW WE WERE INVOLVING XXIII:2. HE WOULD STILL BE SURPRISED IF HE LOST THE OIL BATTLE IN SEPTEMBER BUT HIS TASK HAD BECOME FAR MORE DIFFICULT. HANNAY ADDED THAT MEMBER STATES INTERESTED IN DEFEATING THE MILK LEVY WOULD BE IN A STRONGER POSITION AND THERE WOULD BE AN EFFORT TO REOPEN THE SPECIALTY STEEL ISSUE. I TOLD THEM THAT WOULD ALSO BE A POOR IDEA SINCE IT COULD EASILY LEAD US TO AN ESCALATION WHICH NO ONE WOULD BE ABLE TO CONTROL.

6. SOAMES REPEATED THAT HE WOULD TRY TO KEEP MATTERS IN HAND BUT HE COULD GIVE NO ASSURANCES THAT THE COMMUNITY COULD PLAY COOL IN THESE NEW CIRCUMSTANCES. IF THE US REQUEST TO GATT FOLLOWED ORDERLY PROCEDURES, CALLED FOR A PANEL, AND AVOIDED REQUEST FOR DAMAGE ASSESSMENT, MAYBE HE COULD DO SOMETHING TO DAMPEN A COMMUNITY BACKFIRE, EVEN AT THIS LATE STAGE, BUT HE FEARED POLITICAL STATEMENTS BY US GOVERNMENT OFFICIALS WOULD FURTHER HEAT UP THE ATMOSPHERE WHICH WOULD REDUCE HIS OPTIONS AND GIVE PRETEXT TO THOSE IN EUROPE WHO WOULD WELCOME CONFRONTATION OVER AGRICULTURE. HINTON

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